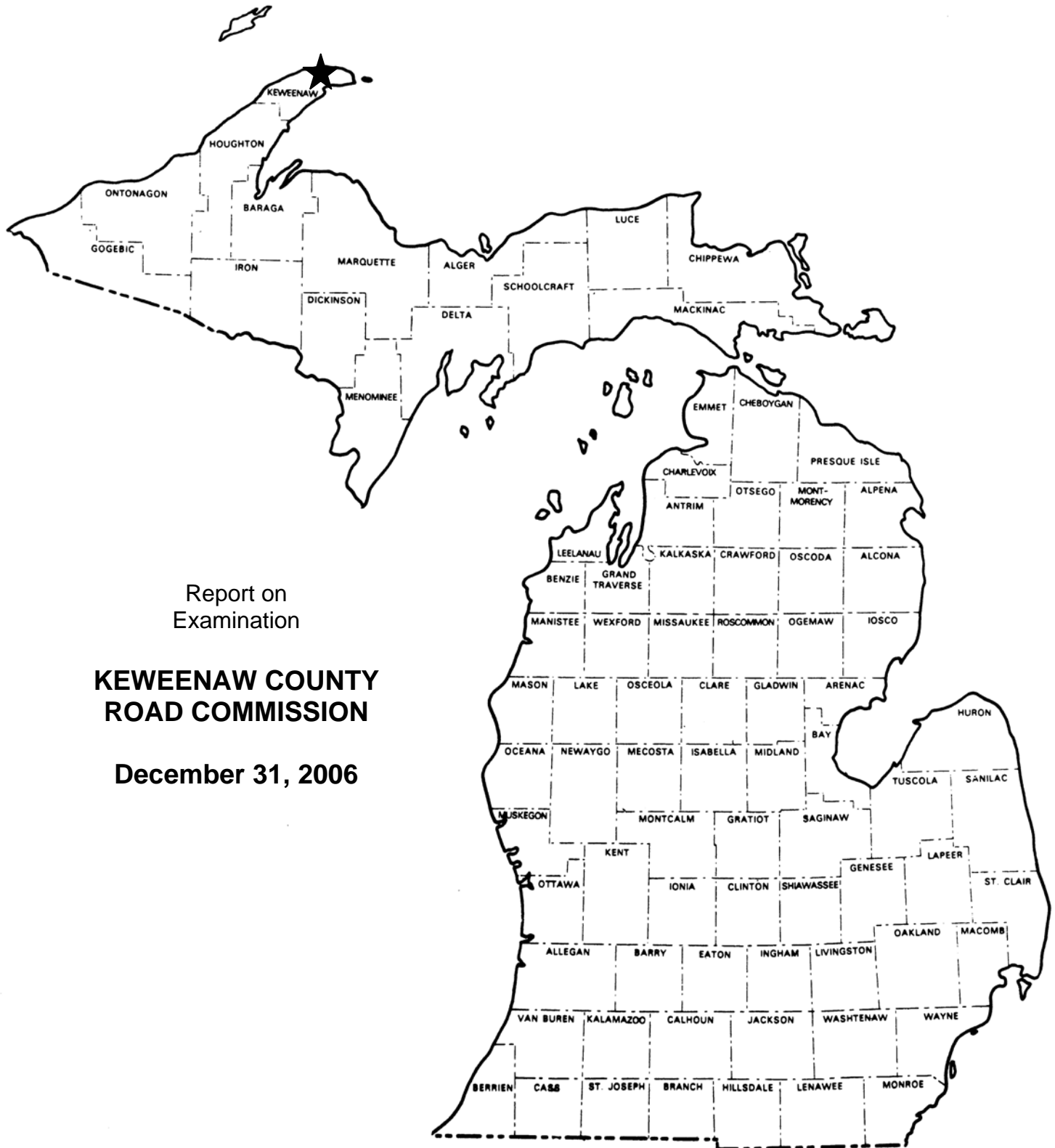


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**KEWEENAW COUNTY  
ROAD COMMISSION**

**December 31, 2006**

KEWEENAW COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Joel Tuoriniemi  
Chairperson

Owen O'Brien  
Vice Chairperson

Eric Bjorn  
Member

Gregg M. Patrick, P.E.  
Engineer/Manager

Linda Luokkanen  
Clerk

COUNTY POPULATION--2000  
2,301

STATE EQUALIZED VALUATION--2006  
\$164,866,788



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

September 13, 2007

Keweenaw County Road Commission  
Board of County Road Commissioners  
1916 Fourth Street  
P.O. Box 327  
Mohawk, Michigan 49950

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Keweenaw County Road Commission, a component unit of Keweenaw County, Michigan, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Keweenaw County Road Commission as of December 31, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2007 on our consideration of the Keweenaw County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 7 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Keweenaw County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# KEWEENAW COUNTY ROAD COMMISSION

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# **KEWEENAW COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### Using this Annual Report

The Keweenaw County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

**KEWEENAW COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Report the Road Commission's Major Fund

The fund financial statements begin on page ten and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased \$495,805 (or 17.29%) for the year ended December 31, 2006. The net assets and change in net assets is summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$409,679 during 2006; a decrease of \$18,319 from the prior year. The change was primarily the result of a reduction in Michigan Transportation Fund (MTF) funding and maintenance activity expenditures as compared to 2006.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net or related debt) are considered restricted. The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

**KEWEENAW COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The investment in capital assets for 2006, net of related debt, was \$2,954,061; an increase of \$514,124 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$573,274 for the year 2006.

Net assets as of year ended December 31, 2006, is as follows:

	2005 Governmental Activities	2006 Governmental Activities	Increase (Decrease)	% of Change
Current and Other Assets	\$ 929,039	\$ 885,491	\$ (43,548)	-4.69%
Net Capital Assets	<u>2,460,817</u>	<u>3,016,662</u>	<u>555,845</u>	<u>22.59%</u>
Total Assets	<u>3,389,856</u>	<u>3,902,153</u>	<u>512,297</u>	<u>15.11%</u>
Other Liabilities	92,341	45,193	(47,148)	-51.06%
Long-Term Liabilities	<u>429,580</u>	<u>493,220</u>	<u>63,640</u>	<u>14.81%</u>
Total Liabilities	<u>521,921</u>	<u>538,413</u>	<u>16,492</u>	<u>3.16%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	2,439,937	2,954,061	514,124	21.07%
Restricted	<u>427,998</u>	<u>409,679</u>	<u>(18,319)</u>	<u>-4.28%</u>
Total Net Assets	<u><u>\$ 2,867,935</u></u>	<u><u>\$ 3,363,740</u></u>	<u><u>\$ 495,805</u></u>	<u><u>17.29%</u></u>



**KEWEENAW COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2006 follows:

	2005 Governmental Activities	2006 Governmental Activities	Increase (Decrease)	% of Change
Program Revenue				
Charges for Services	\$ 646,388	\$ 750,531	\$ 104,143	16.11%
Operating Grants and Contributions	1,361,410	1,430,971	69,561	5.11%
Capital Grants and Contributions	536,143	284,268	(251,875)	-46.98%
General Revenue				
Gain on Equipment Disposal	25	23,000	22,975	91900.00%
Total Revenue	2,543,966	2,488,770	(55,196)	-2.17%
Expenses				
Primary Road Maintenance	733,858	511,844	(222,014)	-30.25%
Local Road Maintenance	432,739	345,463	(87,276)	-20.17%
State Trunkline Maintenance	646,388	610,954	(35,434)	-5.48%
Net Equipment Expense	(15,335)	99,890	115,225	-751.39%
Net Administrative Expense	201,552	299,168	97,616	48.43%
Infrastructure Depreciation	62,608	97,820	35,212	56.24%
Interest Expense		6,388	6,388	100.00%
Compensated Absences	901	21,441	20,540	2279.69%
Total Expenses	2,062,711	1,992,968	(69,743)	-3.38%
Increase in Net Assets	\$ 481,255	\$ 495,802	14,547	3.02%
Ending Net Assets	\$ 2,867,938	\$ 3,363,740	\$ 495,802	17.29%

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the General Operations Fund increased \$3,119. Total operating revenues were \$2,488,770, a decrease of \$55,196 as compared to the prior year (2005). This change in revenues resulted primarily from 2006 increases in State Trunkline revenue reimbursements of \$74,644, a Federal aid project for \$153,341 and an increase in State buyout of Federal funds of \$67,811 offset by a decrease of \$321,171 from a grant received in 2005 to build the chemical storage building.

**KEWEENAW COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Total expenditures were \$2,543,151, a decrease of \$147,187 as compared to 2005. This change in expenditures is primarily due to a decrease in capital outlay of \$151,966. This was mostly attributable to the chemical storage building that was built in 2005.

	2005	2006	Variance	%
Revenues				
Federal Grants	\$ 100,131	\$ 153,341	\$ 53,210	53.14%
State Grants	1,783,319	1,517,949	(265,370)	-14.88%
Contributions From Local Units	3,597	19,684	16,087	447.23%
Charges for Services	646,388	721,032	74,644	11.55%
Interest and Rents	10,506	24,265	13,759	130.96%
Other Revenue	25	52,499	52,474	209896.00%
Total Revenues	<u>2,543,966</u>	<u>2,488,770</u>	<u>(55,196)</u>	<u>-2.17%</u>
Expenditures				
Public Works	2,239,279	2,227,111	(12,168)	-0.54%
Capital Outlay	445,839	293,873	(151,966)	-34.09%
Debt Service	<u>5,220</u>	<u>22,167</u>	<u>16,947</u>	<u>100.00%</u>
Total Expenditures	<u>2,690,338</u>	<u>2,543,151</u>	<u>(147,187)</u>	<u>-5.47%</u>
Excess of Expenditures Over Revenues	<u>(146,372)</u>	<u>(54,381)</u>	<u>91,991</u>	<u>62.85%</u>
Other Financing Sources				
Proceeds From Lease		<u>57,500</u>	<u>57,500</u>	<u>100.00%</u>
Total Other Financing Sources	<u>-</u>	<u>57,500</u>	<u>57,500</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(146,372)</u>	<u>3,119</u>	<u>149,491</u>	<u>102.13%</u>
Fund Balance--Beginning	<u>725,600</u>	<u>579,228</u>	<u>(146,372)</u>	<u>-20.17%</u>
Fund Balance--Ending	<u>\$ 579,228</u>	<u>\$ 582,347</u>	<u>\$ 3,119</u>	<u>0.54%</u>

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

**KEWEENAW COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

During the 2006 budget year, the Road Commission's budget was increased for both revenues and expenditures due to the grant received from the Michigan Department of Transportation for the new guardrail upgrading work along Five Mile Road. Expenses also were increased for this project.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission had \$3,017,162 invested in capital assets as follows:

	2005	2006	Total Percentage Change 2005-2006
Capital Assets Not Being Depreciated			
Infrastructure--Land	\$ 634,505	\$ 634,505	0.00%
Infrastructure--Land Improvements	78,120	78,120	0.00%
Subtotal	<u>712,625</u>	<u>712,625</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Buildings	657,665	670,255	1.91%
Equipment	2,946,132	3,165,106	7.43%
Shop, Office and Engineer Equipment	272,973	277,994	1.84%
Infrastructure	<u>1,049,917</u>	<u>1,623,192</u>	<u>54.60%</u>
Subtotal	<u>4,926,687</u>	<u>5,736,547</u>	<u>16.44%</u>
Total Capital Assets	<u>5,639,312</u>	<u>6,449,172</u>	<u>14.36%</u>
Total Accumulated Depreciation	<u>(3,178,495)</u>	<u>(3,432,010)</u>	<u>7.98%</u>
Total Net Capital Assets	<u><u>\$ 2,460,817</u></u>	<u><u>\$ 3,017,162</u></u>	<u><u>22.61%</u></u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$3,017,162. The infrastructure recorded, during 2006, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Various Resurfacing Projects and Related Land/Right-of-Way	\$ 573,274
Buildings	12,590
Trucks/Equipment	276,262
Administrative and Engineering	<u>5,021</u>
Total Additions	<u><u>\$ 867,147</u></u>

**KEWEENAW COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Debt

During 2006, the Road Commission entered into an installment purchase agreement for the purchase of a vibratory roller at a cost of \$57,500. At the year end, the Road Commission had a balance of \$62,601 in installment purchase agreements versus \$20,880 last period as shown below:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 20,880</u>	<u>\$ 62,601</u>	<u>\$(41,721)</u>	<u>-199.81%</u>
Total	<u><u>\$ 20,880</u></u>	<u><u>\$ 62,601</u></u>	<u><u>\$(41,721)</u></u>	<u><u>-199.81%</u></u>

More detailed information about the Road Commission's long-term liabilities is presented in Note F to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 49% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Keweenaw County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Keweenaw County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Keweenaw County Road Commission administrative offices at: 1916 Fourth Street, Keweenaw, Michigan 49950.

**KEWEENAW COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**December 31, 2006**

**EXHIBIT A**

**ASSETS**

Cash	\$ 520,698
Accounts Receivable	
State--Trunkline Maintenance	63,493
Michigan Transportation Fund	166,005
State--Other	36,805
Inventories	
Road Materials	20,663
Equipment Parts and Materials	77,827
Capital Assets (Net of Accumulated Depreciation)	<u>3,016,662</u>
Total Assets	<u>3,902,153</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	3,438
Accrued Liabilities	41,755
Noncurrent Liabilities	
Advances From State	257,951
Installment Purchase Agreements Payable--Due Within One Year	16,095
Installment Purchase Agreements Payable--Due in More Than One Year	46,506
Vested Employee Benefits Payable	<u>172,668</u>
Total Liabilities	<u>538,413</u>

**NET ASSETS**

Investment in Capital Assets--Net of Related Debt	2,954,061
Restricted for County Roads	<u>409,679</u>
Total Net Assets	<u>\$ 3,363,740</u>

**The Notes to Financial Statements are an integral part of this statement.**

**KEWEENAW COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2006**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 511,844
Local Road Maintenance	345,463
State Trunkline Maintenance and Nonmaintenance	610,954
Net Equipment Expense	99,890
Net Administrative Expense	299,168
Infrastructure Depreciation	97,820
Compensated Absences	21,441
Interest Expense	6,388
	<hr/>
Total Program Expenses	1,992,968
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	750,531
Operating Grants and Contributions	
Michigan Transportation Funds	1,219,206
State Buyout of Federal Funds	187,500
Investment Earnings	24,265
Capital Grants and Contributions	
Federal Grants	153,341
State Grants	111,243
Contributions From Local Units	19,684
	<hr/>
Total Program Revenue	2,465,770
	<hr/>
Net Program Revenue	472,802
	<hr/>
General Revenue	
Gain on Equipment Disposal	23,000
	<hr/>
Total General Revenue	23,000
	<hr/>
Change in Net Assets	495,802
	<hr/>
Net Assets	
Beginning of Year	2,867,938
	<hr/>
End of Year	\$ 3,363,740
	<hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**KEWEENAW COUNTY ROAD COMMISSION**  
**BALANCE SHEET**  
**December 31, 2006**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 520,698
Accounts Receivable	
State Trunkline Maintenance	63,493
Michigan Transportation Fund	166,005
Sundry Accounts	36,805
Inventories	
Road Materials	20,663
Equipment Parts and Materials	<u>77,827</u>
Total Assets	<u><u>\$ 885,491</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 3,438
Accrued Liabilities	41,755
Advances	
Trunkline Equipment Purchase	200,590
Trunkline Maintenance	<u>57,361</u>
Total Liabilities	<u>303,144</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	98,490
Unreserved and Undesignated	<u>483,857</u>
Total Fund Equities	<u>582,347</u>
Total Liabilities and Fund Equities	<u><u>\$ 885,491</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**KEWEENAW COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
For the Year Ended December 31, 2006**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 582,347
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,016,662
The long-term liability for vested employee benefits payable not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(235,269)</u>
Net Assets of Governmental Activities	<u><u>\$3,363,740</u></u>

**The Notes to Financial Statements are an integral part of this statement.**



**KEWEENAW COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended December 31, 2006**

**EXHIBIT E**

	Operating Fund
Revenues	
Federal Grants	\$ 153,341
State Grants	1,517,949
Contributions From Local Units	19,684
Charges for Services	721,032
Interest and Rents	24,265
Other Revenue	52,499
	<hr/>
Total Revenues	2,488,770
	<hr/>
Expenditures	
Public Works	2,227,111
Capital Outlay	293,873
Debt Service	22,167
	<hr/>
Total Expenditures	2,543,151
	<hr/>
Excess of Revenues Over (Under) Expenditures	(54,381)
	<hr/>
Other Financing Sources (Uses)	
Installment Purchase Agreement Proceeds	57,500
	<hr/>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	3,119
	<hr/>
Fund Balance--January 1, 2006	579,228
	<hr/>
Fund Balance--December 31, 2006	\$ 582,347
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**KEWEENAW COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2006**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds	\$ 3,119
--	----------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

555,845

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)

(21,441)

Change in Net Assets of Governmental Activities

\$ 495,802

**The Notes to Financial Statements are an integral part of this statement.**

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--REPORTING ENTITY

The Keweenaw County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Keweenaw County Road Commission, a discretely presented component unit of Keweenaw County, and include the Road Commission Operating Fund. The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Keweenaw County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

#### Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Keweenaw County Road Commission as assets with an initial individual cost of more \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget, when necessary, by transferring up to 20% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

#### Budget Violations

Public Act 2 of 1968, Section 19(1), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the final amended budget:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Preservation/Structural Improvements	\$ 364,000	\$ 486,433	\$ (122,433)
Net Administrative Expense	101,000	299,168	(198,168)
Net Equipment Expense	45,326	83,367	(38,041)
Debt Service		22,167	(22,167)

### NOTE D--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated one financial institution for the deposit of Road Commission funds. The Road Commission's deposits and investment policy are in accordance with statutory authority.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INVESTMENTS (Continued)

At year end (and during the year), the Road Commission did not have any investments other than long-term certificates of deposits, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$ 520,698</u>
Total	<u><u>\$ 520,698</u></u>

The bank balance of the Road Commission's deposits is \$546,109, of which \$100,000 is covered by Federal depository insurance. The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

### Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended December 31, 2006.

### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that, changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit their exposure to interest rate risk.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INVESTMENTS (Continued)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

### NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/31/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 634,505			\$ 634,505
Infrastructure Land Improvements	78,120			78,120
Subtotal	712,625	\$ -	\$ -	712,625
Capital Assets Being Depreciated				
Buildings	657,665	12,590		670,255
Road Equipment	2,946,132	276,262	57,288	3,165,106
Shop Equipment	120,303			120,303
Engineers' Equipment	99,014	4,511		103,525
Office Equipment	51,398	510		51,908
Yard and Storage	2,258			2,258
Infrastructure--Bridges	194,246			194,246
Infrastructure--Roads	855,672	573,274		1,428,946
Total	4,926,688	867,147	57,288	5,736,547
Less Accumulated Depreciation				
Buildings	219,181	4,103		223,284
Buildings - Salt Shed		16,523		16,523
Road Equipment	2,551,237	184,398	57,288	2,678,347
Shop Equipment	107,142	2,141		109,283
Engineers' Equipment	90,129	4,335		94,464
Office Equipment	45,190	1,982		47,172
Yard and Storage	2,258			2,258
Infrastructure--Bridges	80,031	2,590		82,621
Infrastructure--Roads	83,327	95,231		178,558
Total	3,178,495	311,303	57,288	3,432,510
Net Capital Assets Being Depreciated	1,748,193	867,147	311,303	2,304,037
Total Net Capital Assets	<u>\$ 2,460,818</u>	<u>\$ 867,147</u>	<u>\$ 311,303</u>	<u>\$ 3,016,662</u>



# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 184,398
Indirect Equipment	22,767
Net Administrative Expenses	
Engineering Equipment	4,335
Office Equipment	1,982
Infrastructure Depreciation Expense	<u>97,821</u>
Total Depreciation Expense	<u>\$ 311,303</u>

### NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
Installment Purchase Agreement for Land Paid in Annual Installment of \$5,220 at an interest rate of 6%.	\$ 20,880	\$ (5,220)	\$ 15,660	\$ 5,220
Installment Purchase Agreement for Equipment Paid in Monthly Installments of \$1,100.55 at an interest rate of 5.5%.		57,500 (10,559)	46,941	10,875
Vested Employee Benefits Sick Leave Benefits	<u>151,227</u>	<u>21,441</u>	<u>172,668</u>	
Totals	<u>\$172,107</u>	<u>\$ 63,162</u>	<u>\$235,269</u>	<u>\$ 16,095</u>

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

Land was purchased in April 2004 under an installment purchase agreement through Lake Superior Land Company. The original purchase price was \$26,100, with 5 annual principal payments of \$5,220 and an interest rate of 6.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
04/30/04	\$ 26,100	6.00%	2007	\$ 5,220	\$ 939
			2008	5,220	626
			2009	<u>5,220</u>	<u>313</u>
				<u>\$ 15,660</u>	<u>\$ 1,878</u>

Equipment was purchased in January 2006 under an installment purchase agreement with Citicorp Bank. The original purchase price was \$57,500, with 60 monthly payments of \$1,100 and an interest rate of 5.5%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
12/20/05	\$57,500	5.50%	2007	\$ 10,875	\$ 2,331
			2008	11,489	1,718
			2009	12,137	1,070
			2010	<u>12,440</u>	<u>385</u>
Total				<u>\$ 46,941</u>	<u>\$ 5,504</u>

### Sick Leave Benefit Policy

Road Commission sick leave benefit policies provide that each employee earns one day of sick leave for each month of employment, to a maximum accumulation of 180 days. Employees not using any sick leave during the year will be paid a bonus equivalent to one week at their regular rate at the end of the year. An employee's accumulated sick leave will be paid upon leaving, or death at 100%, up to a maximum of 90 days based on the employee's pay rate at that time, providing the employee has at least 5 years employment with the Road Commission.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--LONG-TERM DEBT (Continued)

The amount recorded as vested employee sick leave benefits represents only the accumulated days, up to a maximum of 90, for those employees with 5 or more years of employment with the Road Commission.

#### Vacation Benefit Policies

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

### NOTE G--DEFERRED COMPENSATION PLAN

The Keweenaw County Road Commission offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. During 2003, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to, or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM

#### Description of Plan and Plan Assets

The Keweenaw County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.50% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Funding Policy

The Road Commission does not obligate the employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 17.71% of annual compensation at December 31, 2006.

#### Annual Pension Cost

During the fiscal year ended December 31, 2006, the Road Commission's contributions totaling \$144,020 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 81,629	100%	\$0
2005	110,918	100%	0
2006	144,020	100%	0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 3,758,803	\$ 4,870,536	\$ 1,111,733	77%	\$ 760,162	146%
12/31/05	3,855,343	4,973,857	1,118,514	78%	760,862	147%
12/31/06	4,056,396	5,109,030	1,052,634	79%	813,214	129%

# KEWEENAW COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note I, the Keweenaw County Road Commission provides post-employment health care benefits and life insurance coverage, in accordance with Article 16, Section B, and Article 17 of their working agreement. The health care benefit provides that any permanent employee who becomes disabled or retires at any age after 5 years of service with the Road Commission shall have their hospitalization insurance premium paid for a period of 3 years by the Road Commission. Currently, 5 retirees are eligible for this post-employment benefit. The life insurance benefit provides that the Road Commission will pay for group term life insurance coverage in the amount of \$2,000 for each retired employee. Currently, 11 retirees are covered by this benefit. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year 2006, expenditures of approximately \$67,415 were recognized for post-employment health care benefits and \$317 for life insurance benefits.

### NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2005, the Federal Aid received and expended by the Road Commission was \$153,341 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

### NOTE K--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

## KEWEENAW COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--RISK MANAGEMENT (Continued)

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2006, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

#### NOTE L--STATE TRUNKLINE MAINTENANCE REVENUE

The \$110,078 difference between the State trunkline maintenance revenues of \$721,032 and expenditures of \$610,954 is due to a refund resulting from the Michigan Department of Transportation (MDOT) trunkline maintenance audits for the 2001 and 2002 calendar years.

**KEWEENAW COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended December 31, 2006**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Federal Grants				
Surface Transportation Program	\$ 350,000	\$ 188,000	\$ 153,341	\$ (34,659)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	972,000	862,000	928,488	66,488
Local Road	133,000	141,000	144,862	3,862
Snow Removal	130,000	136,000	135,856	(144)
Economic Development Funds				
Forest Funds (E)	111,000	111,244	111,243	(1)
State Buyout Funds		-	187,500	187,500
Contributions--Local Units				
Townships	10,000	20,000	19,684	(316)
Charges for Services				
State Trunkline Maintenance	630,000	676,000	721,032	45,032
Interest and Rents				
Interest Earned	10,000	20,000	24,265	4,265
Other Revenue				
Gain on Equipment Disposals	4,000	23,000	23,000	-
Other Contributions	6,000	9,600	29,499	19,899
Total Operating Revenue	2,366,000	2,196,844	2,488,770	291,926
Other Financing Sources				
Installment Purchase Agreement Proceeds	-	-	57,500	57,500
Total Other Financing Sources	-	-	57,500	57,500
Total Operating Revenue and Other Financing Sources	2,366,000	2,196,844	<u>\$ 2,546,270</u>	<u>\$ 349,426</u>
Fund Balance--January 1, 2006	679,897	679,897		
Total Budget	<u>\$ 3,045,897</u>	<u>\$ 2,876,741</u>		

**KEWEENAW COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2006**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 420,000	\$ 364,000	\$ 486,433	\$ (122,433)
Routine and Preventive Maintenance	520,000	520,000	511,844	8,156
Local Road				
Preservation/Structural Improvements	95,000	95,000	86,841	8,159
Routine and Preventive Maintenance	355,000	355,000	345,463	9,537
State Trunkline Maintenance	630,000	676,000	610,954	65,046
Equipment Expense--Net	(30,000)	45,326		
Direct			\$ 462,785	
Indirect			147,771	
Operating			129,297	
Less: Equipment Rentals			(656,486)	(38,041)
Administrative Expense--Net	100,000	101,000		
Administrative Expense			381,353	
Less: Handling Charges			(7,277)	
Overhead--State Trunkline			(74,908)	(198,168)
Capital Outlay--Net	255,000	314,210		
Capital Outlay			293,873	
Less: Depreciation Credits			(196,959)	
Equipment Retirements			-	217,296
Debt Service				
Principal Payments		-	15,779	(15,779)
Interest Expense			6,388	(6,388)
Contingency	20,000	-		-
Total Expenditures	2,365,000	2,470,536	\$2,543,151	\$ (72,615)
Fund Balance--December 31, 2006	680,897	406,205		
Total Budget	\$ 3,045,897	\$ 2,876,741		



**KEWEENAW COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended December 31, 2006**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 1,393,463	\$ 331,251	\$ 764,056	\$ 2,488,770
Total Expenditures	1,239,545	544,543	759,063	2,543,151
Excess of Revenues Over (Under) Expenditures	153,918	(213,292)	4,993	(54,381)
Other Financing Sources (Uses)				
Installment Lease Proceeds			57,500	57,500
Optional Transfers	(153,918)	153,918		-
Interfund Adjustments	31,084	59,374	(90,458)	-
Total Other Financing Sources (Uses)	(122,834)	213,292	(32,958)	57,500
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	31,084	-	(27,965)	3,119
Fund Balance--January 1, 2006			579,228	579,228
Fund Balance--December 31, 2006	\$ 31,084	\$ -	\$ 551,263	\$ 582,347

**KEWEENAW COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES**  
**For the Year Ended December 31, 2006**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Federal Grants				
Surface Transportation Program	\$ 153,341			\$ 153,341
State Grants				
Michigan Transportation Fund				
Engineering	8,650	\$ 1,350		10,000
Allocation	928,488	144,862		1,073,350
Snow Removal		135,856		135,856
Economic Development Funds				
Forest Funds (E)	111,243			111,243
State Buyout Funds	187,500			187,500
Contributions--Local Units				
Townships		19,684		19,684
Charges for Services				
State Trunkline Maintenance			\$ 721,032	721,032
Interest and Rents				
Interest Earned	4,241		20,024	24,265
Other Revenue				
Other Contributions		29,499	-	29,499
Gain on Equipment Disposal			23,000	23,000
Total Operating Revenue	1,393,463	331,251	764,056	2,488,770
Other Financing Sources				
Installment Purchase Agreement Proceeds	-	-	57,500	57,500
Total Other Financing Sources	-	-	57,500	57,500
Total Operating Revenue and Other Financing Sources	\$ 1,393,463	\$ 331,251	\$ 821,556	\$ 2,546,270

**KEWEENAW COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended December 31, 2006**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 486,433			\$ 486,433
Routine and Preventive Maintenance	511,844			511,844
Local Road				
Preservation/Structural Improvements		\$ 86,841		86,841
Routine and Preventive Maintenance		345,463		345,463
State Trunkline Maintenance			\$ 610,954	610,954
Equipment Expense--Net (Per Exhibit H)	32,505	21,834	29,028	83,367
Administrative Expense--Net (Per Exhibit H)	208,763	90,405		299,168
Capital Outlay--Net (Per Exhibit H)			96,914	96,914
Debt Service				
Principal Payments			15,779	15,779
Interest Payments			6,388	6,388
Total Expenditures	<u>\$ 1,239,545</u>	<u>\$ 544,543</u>	<u>\$ 759,063</u>	<u>\$ 2,543,151</u>



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

September 13, 2007

Keweenaw County Road Commission  
Board of County Road Commissioners  
1916 Fourth Street  
P.O. Box 327  
Mohawk, Michigan 49950

RE: Report on Internal Control Over Financial Reporting and Compliance and  
Other Matters Based on an Audit of the Financial Statements Performed in  
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Keweenaw County Road Commission, a component unit of Keweenaw County, as of and for the year ended December 31, 2006, and have issued our report thereon dated September 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Keweenaw County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keweenaw County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Keweenaw County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Keweenaw County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as Findings 06-1, 06-2 and 05-03.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Keweenaw County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, we believe that all of the significant deficiencies listed above are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keweenaw County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying comments and recommendations as items 05-04.

We also noted "Other Matters" that we reported to the management of Keweenaw County Road Commission's in the accompanying comments and recommendations as items 06-03 through 06-05.

This report is intended solely for the information of the Keweenaw County Board of Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## KEWEENAW COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Keweenaw County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Keweenaw County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Listed below are significant deficiencies in the internal control that are material weaknesses.

#### SIGNIFICANT DEFICIENCIES--MATERIAL WEAKNESSES

##### Receipting Transaction Cycle

*Finding 06-01*

*Condition:* One person is involved in writing receipts, preparing transmittal advices, posting receipts, making the deposits and reconciling the receipts with the receipt register, transmittal advice and the county treasurer's receipt.

*Criteria:* Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records and proper documentation of transactions.

*Recommendation:* We recommend that the Road Commission segregate the duties of receipting, posting receipts, making deposits, preparing the transmittal, and reconciling monthly receipts. At a minimum, there should be additional supervisory reviews and approvals.

##### Incomplete General Ledger

*Finding 06-02*

*Condition:* The Road Commission maintains an incomplete manual general ledger that did not support the dollar amounts included in the Act 51 report. There is an accounting computer program that was used to generate and record vendor and payroll checks, but it was not used to record revenues and transfer vouchers, assets and liabilities.

*Findings:* The general ledger dollar amounts did not reconcile into the Act 51 annual report. We have found that the Road Commission posts items as a receivable with the offset as an expenditure credit instead of a revenue and will record entries against receivables without actually having a receivable established, resulting in negative receivables.

*Criteria:* Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records and proper documentation of transactions.

## KEWEENAW COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### SIGNIFICANT DEFICIENCIES--MATERIAL WEAKNESSES (Continued)

*Recommendation:* We recommend that the Road Commission produce monthly reports that contain up to date budget to actual amounts and that the financial reports be reviewed and approved.

##### Infrastructure Listing

*Finding 05-3*

*Condition:* The Road Commission did not prepare worksheets or have records on the infrastructure assets.

*Criteria:* According to Governmental Accounting Standards Board Statement No. 34, the Road Commission must adopt the financial statement reporting model and prospective reporting of infrastructure for periods beginning after June 15, 2003.

*Recommendation:* We recommend that the Road Commission update the infrastructure schedules each year and make sure that the construction and preservation/structural improvements reconcile with the additions for the road and bridge infrastructure.

#### NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Our examination revealed the following instances of noncompliance with State statutes and regulations.

##### Excess Expenditures Over Appropriations

*Finding 05-4*

*Condition:* Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the Road Commission's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Road Commission's General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled to the activity level by the Road Commission. As detailed below, actual 2006 expenditures exceeded the board's approved budget allocations for several general fund and special revenue fund activities.

## KEWEENAW COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Structural Improvement	\$ 364,000	\$ 486,433	\$ (122,433)
Net Equipment Expense	45,326	83,367	(38,041)
Net Administrative Expense	101,000	299,168	(198,168)
Debt Service		22,167	(22,167)

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 2 of 1968, Section 17.

*Directive:* We direct the Road Commission to develop budgetary control procedures, which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

#### Electronic Transaction of Public Funds

*Finding 05-5*

*Condition:* Keweenaw County Road Commission electronically transfers funds for payroll withholdings without legal authority.

*Definitions:* ACH-automated clearing house; ETO-electronic transactions officer.

*Criteria:* According to MCL 124.303, "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary."

*Direction:* We direct the board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.



## KEWEENAW COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

##### Investment Policy

*Finding 06-03*

*Condition:* The Road Commission does not have an updated investment policy that contains credit risk assessments and disclosures for investments as required by GASB Statement No. 40. The Road Commission does not have a Check Act 21 policy approved by the board.

*Criteria:* For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Check Act 21 allows a bank to transmit checks for payment electronically and requires entities to have a policy that addresses electronic checks.

*Recommendation:* We recommend that the Road Commission use the 2006 road manual to formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy. We also recommend that the board adopt a policy that addresses electronic checks.

##### Social Security Number Privacy Policy

*Finding 06-04*

*Condition:* The board of county road commissioners has not adopted a social security number privacy policy. The social security numbers were included on all payroll related reports.

*Criteria:* The Federal law requires that all entities adopt a social security privacy policy for the protection of employees.

*Direction:* We direct that the board adopt a social security privacy policy, a copy of a sample policy has been given to management.

##### Act 51 Report

*Policy 06-05*

*Condition:* The final adjustment and Act 51 report were not completed timely and has resulted in an untimely audit. The annual Act 51 report was not certified until August 30, 2007.

*Criteria:* Act 51 of 1951 requires that the annual financial report be completed and submitted to the Michigan Department of Transportation by May 2<sup>nd</sup> each year.

*Direction:* We direct that the Road Commissioners evaluate the cause and take steps to ensure that the final adjustments be made by the end of February to allow the Road Commission to be ready for an audit in March or April of each year.